Nestor Healthcare Group plc

Annual Report and Accounts
for the year ended 31st December 1999

Registered No. 1992981

20-6-00
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Directors' Report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 1999.

Principal activities, results and future developments
Nestor Healthcare Group plc is the holding company of a group of companies in the healthcare sector. Its principal activities are:

- the provision of professionals and workers on temporary and permanent placement in the UK's health and care sector;
- the provision of value-added healthcare services.

The Chairman's Statement, Operating and Financial Reviews on pages 8 to 23 provide a report on the Group's activities, trading results and future developments.

Results and dividends
The profit attributable to shareholders was £2,922,000 (1998 (restated): £9,196,000). An interim dividend of 2.02 pence per ordinary share was paid to shareholders on 22nd October 1999. The directors now recommend a final dividend of 3.56 pence per ordinary share, to be paid to shareholders on 26th May 2000. Following payment of all dividends for the year, totalling 5.58 pence, the deficit of £1,428,000 will be transferred from the Group's reserves.

Directors
The directors who served during the year were D G Heywood, J A S Jewitt, D O Lyon, C Goodson-Wickes, F J A Howard, R M Nicholls, A Parker and D Howell.

F J A Howard retired from the Board on 31st August 1999. C Goodson-Wickes retired from the Board on 31st December 1999. A Parker was appointed to the Board on 1st June 1999. D Howell was appointed to the Board on 31st August 1999. W F Holmes and M D R Horgan were appointed to the Board on 1st January 2000.

In accordance with the Articles of Association, A Parker, D Howell, W F Holmes and M D R Horgan will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election.

A Parker, D Howell and W F Holmes hold office by virtue of letters of appointment, providing for a term of office, expiring three years from the date of their appointment.

M D R Horgan has a service agreement with British Nursing Co-operations Limited (a wholly owned subsidiary) which is subject to twelve months' notice of termination.

Directors' interests
All directors' interests, including details of shareholdings, are set out in the Remuneration Report of the Board on pages 28 to 30.

Substantial shareholdings
At the date of this report the Company has been notified of the following material interests of 3% or more and non-material interests of 10% or more in its ordinary share capital:

	Number	Percentage of issued share capital
Schroder Investment Management Limited	13,192,634	16.82%
Prudential Corporation Group, including clients' managed funds	7,779,089	9.92%
Fidelity International Limited	4,278,228	5.45%
3i plc	2,884,508	3.68%

Share capital
Details of the authorised and issued share capital of the Company during the year ended 31st December 1999 are given at Note 23 to the financial statements.

Directors' Report continued

Annual General Meeting – special business

The Annual General Meeting of the Company will take place at The Brewery, Chiswell Street, London EC1Y 4SD on Thursday, 11th May 2000 at 12.00 noon. The notice of the Annual General Meeting may be found on pages 63 and 64. In addition to the routine business of the meeting, the following special business will be transacted:

- Directors' authority to issue shares (Resolution 8)
  The Companies Act 1985 ("the Act"), prevents directors from allotting unissued securities without the authority of shareholders. In certain circumstances this could be unduly restrictive. The proposed special resolution will give the directors a general authority to issue shares of the Company for cash, within certain constraints, without complying with the statutory pre-emption procedures. The total number of relevant shares which the directors will have the authority to allot will be 17,500,000 ordinary shares of 10p each (representing 22.3% of the share capital currently in issue). The directors have no present intention to exercise this authority (subject to the possibility of the allotment of shares in connection with acquisitions which may be made by the Company in the forthcoming year). The authority in Resolution 8 will expire at the conclusion of the next Annual General Meeting or on 11th August 2001, whichever is the earlier.

- Restricted disapplication of pre-emption rights (Resolution 9)
  The proposed special resolution will give the directors a limited authority to issue equity shares for cash other than to existing shareholders in proportion to their existing shareholdings notwithstanding the pre-emption provisions of Section 89 of the Act. This limited authority would allow the directors to make such issues provided they do not exceed in aggregate an amount equal to 5% of the issued share capital of the Company. The resolution also contained provisions enabling the directors to take action to overcome certain practical difficulties which could arise in the case of a rights issue. The authority in resolution 9 will expire on the conclusion of the next Annual General Meeting or on 11th August 2001, whichever is the earlier.

- Purchase by the Company of its own shares (Resolution 10)
  The directors consider that it would be advantageous for the Company to renew for a further year the existing authority granted at last year's Annual General Meeting, to allow the use of the Company's available cash resources to acquire its own shares in the market for cancellation. This authority is granted pursuant to Section 162 of the Act.

  Accordingly, a special resolution is proposed to authorise the purchase in the market of up to 10% of the issued ordinary shares of the Company at a price of not more than 105% of the average of the middle market quotations for the ordinary shares of the Company (as derived from the London Stock Exchange Daily Official List) for the ten business days prior to the date of purchase.

  The directors do not intend to exercise the Company's power to purchase its own shares other than in circumstances where they consider this to be in the shareholders' interests and where this would result in an increase in earnings per share.

- Changes to the Existing Executive Share Option Schemes (Resolution 11)
  The proposed resolution invites shareholders to approve an amendment to the limits that restrict the grant of options over unissued shares under the Company's Approved and Unapproved Executive Share Option Schemes (the "Schemes") and other minor amendments, all of which are more fully described in the accompanying Chairman's letter to shareholders.

  Share Options granted under the Scheme have, in the opinion of the directors, been a major contributor to company performance and a key aspect of the incentive culture. However, the Company is now constrained by a rule in the Schemes that prevents it from issuing share options over shares in excess of 5% of its issued share capital.

  The Company is therefore proposing to increase the available headroom for the grant of Executive Share Options from 5% of issued share capital, to a single limit of 10% of issued share capital which will apply to all schemes operated by the Company.

- Renewal of Savings Related Share Option Scheme (Resolution 12)
  The Company's savings related share option scheme has proved very popular with employees over the last ten years and the directors consider that it provides an important method of aligning the interests of all employees with those of the Company's shareholders.

  This scheme is due to expire during the year and it is proposed that a new savings related share option scheme should be established to provide a wide range of employees with the opportunity to obtain a stake in the Company. The directors are therefore seeking shareholders' approval to establish a new savings related share option scheme under which options may be granted to qualifying employees (who participate in a savings contract) over the next ten years. Further details of the proposed new scheme may be found in the accompanying Chairman's letter to shareholders.

Charitable and political donations
No charitable or political donations were made during the year.

Taxation status
The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Disabled employees
It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees.

The Group applies employment policies which are fair and equitable for all employees and which ensure entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency. Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons.

Employee involvement
The Group attaches considerable importance to ensuring that all of its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance.

Internal circulars and newsletters are issued regularly and consultation between management and staff is an ongoing process.

Creditor payment policy
It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice; copies are available from the CBI at Centrepoint, 103 New Oxford Street, London.

The directors' reports of the Group's United Kingdom operating companies give information about their creditor payment policies as required by the Companies Act. The Company, as a holding company, does not itself make any relevant payments in this respect.

Environmental Issues
As a service-based organisation, with no manufacturing or transportation facilities, the Group's exposure to environmental risk is limited. At present, the Group does not possess a formal environmental policy but each of its subsidiaries observes environmentally-aware procedures appropriate to its business (for example, reducing usage of energy and paper). The sharing of best practice across the Group is actively encouraged. The Group is currently working to consolidate these informal practices into a formal policy document.

Auditors
A resolution proposing the re-appointment of PricewaterhouseCoopers, Chartered Accountants, as auditors to the Company and authorising the directors to determine their remuneration will be put to the Annual General Meeting.

Approved by the Board on 20th March 2000 and signed on its behalf by

Emma Thomas
Secretary

Remuneration Report

The Board is pleased to present its remuneration report for the year ended 31st December 1999.

Remuneration policy

During the year, the Board delegated its powers to determine the Company's remuneration policy for senior executives to the Remuneration Committee ("the Committee"), the members of which during the year were David Heywood, Charles Goodson-Wickes, Francis Howard and Robert Nicholls. Since the year end and following the retirement of Francis Howard and Charles Goodson-Wickes from the Board, David Howell has been appointed to the Committee. Further details relating to the Committee may be found on page 32 of this report.

In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Combined Code published by the Committee on Corporate Governance. Its aim is to provide a package of remuneration which is sufficient to attract, retain and motivate all of the Company's senior management, including executive directors, and to reward good performance. To that end, the Committee has decided to structure executive remuneration in three component parts:

- Basic salary and benefits

  Basic salary is determined by reference to the performance of the individual over the past year, taking into account their level of experience and the rates of basic pay for similar roles in comparable companies. In addition to the basic salary and items described below, the Company provides a range of benefits to executive directors, the most significant of which is a fully expensed car.

  During the year, the Committee commissioned a firm of professional benefits consultants to undertake an extensive review of the competitiveness of the annual salaries paid to the Company's senior executives. As a result of that review, the basic salary of certain of the Company's senior executives, including its executive directors, was increased to align with the median of basic salaries earned by executives with similar responsibilities in companies of a similar size and nature to the Company.

- Cash bonus

  The Committee sets stringent bonus targets for each executive, aiming to achieve a balance between short- and long-term objectives. Targets include individual performance criteria specific to the executive's role and overall Company performance including profit before tax and earnings per share. In relation to executive directors, a maximum bonus of 50% of their basic salary is normally payable, provided each target is achieved in full.

- Share options

  The Board believes that share ownership by senior executives encourages above average performance, since the interests of management and shareholders are thereby aligned. Accordingly, it is the Committee's policy to grant share options to executive directors, provided adequate performance has been demonstrated. Options are not exercisable unless the Company has met certain challenging performance criteria.

Employee share option schemes

The Company operates a number of employee share option schemes, all of which (except the savings related option scheme) have performance conditions attached to them.

The Committee has agreed that the exercise of options held under the Company Share Option Plan 1996 and the Employee Share Option Scheme 1996 is conditional on growth in the Company's earnings per share of at least 15 percent above the growth in the UK retail prices index over three consecutive financial years ending after the financial year of the date of grant.

The Company also operates a savings related share option scheme, which provides a long-term savings opportunity for all of the Group's employees, as well as encouraging them to participate in the success of the Company. Participation is open to all employees who are able to make regular monthly savings and are exercisable in normal circumstances after three or five years at a price which is fixed at a discount of up to 20% from the mid-market price of the Company's shares on the business day immediately preceding the date on which invitations are made by the Committee.

It is the Company's policy to grant share options, on a rateable basis, to a broad range of middle and senior management. Consequently, the number of shares available for option grants has become limited in recent years. Accordingly, on the Committee's recommendation, the Board is proposing certain changes to the structure of both executive schemes to enable it to issue further options to the Company's managers. The exerciseability of these options will be subject to the same demanding performance criteria as at present. Further details of the Board's proposal and its proposal to review the Company's savings related share option scheme may be found in the Directors' Report at page 26 and in the accompanying Chairman's letter to shareholders.

Company policy on contracts of service

Executive directors have contracts of employment terminable on one year's notice, except, in relation to Justin Jewitt and David Lyon, in circumstances of a change of control of the Company, where two years' notice is required. Non-executive directors do not hold contracts of employment but are offered letters of appointment for fixed periods of three years, renewable annually thereafter by agreement. The Chairman's letter of appointment is for a fixed period, terminating on 30th September 2001. In accordance with best practice, the non-executive directors are not entitled to any compensation for the early termination of their appointment.

Company policy on the pensions of executive directors

Executive directors are able to join the Company's Retirement Benefits Scheme ("the Scheme") which is a funded, Inland Revenue approved, final salary occupational pension scheme. As with all participating employees, directors are entitled to a pension based on final salary (excluding bonuses) and length of pensionable service, subject to Inland Revenue limits. During the year, D O Lyon's salary exceeded the Inland Revenue Earnings 'cap' and the Company agreed to provide benefits based on his actual basic salary, subject to his making members' contributions to the scheme on the same basis. The death-in-service benefits available to him under the Scheme remain limited to the 'cap' but the Company is currently establishing an unapproved scheme to provide additional death-in-service benefits to him and other senior executives, whose basic salaries exceed the cap.

Prior to the establishment of the Company's current policy on membership of the scheme, the Company agreed to contribute to a personal pension plan for J A S Jewitt, which it continues to do.

Directors' emoluments

	Basic salary and fees *1999* £000	Taxable benefits *1999* £000	Performance related bonuses *1999* £000	Total emoluments excluding pensions *1999* £000	*1998* £000
C Goodson-Wickes	23	–	–	23	22
D G Heywood	95	–	–	95	90
F J A Howard	18	–	–	18	25
D Howell	9	–	–	9	–
J A S Jewitt	195	9	–	204	244
D O Lyon	105	12	15	132	129
R M Nicholls	24	–	–	24	22
A Parker	13	–	–	13	–
Total 1999	482	21	15	518	–
Total 1998	427	18	87	–	532

F J A Howard retired as a director on 31st August 1999. C Goodson-Wickes retired as a director on 31st December 1999. A Parker was appointed as a director on 1st June 1999. D Howell was appointed as a director on 31st August 1999.

The figures above represent emoluments earned as directors during the relevant financial year. All are paid in the year that they are earned, with the exception of bonuses which are paid in the year following that in which they were earned.

Directors' pensions

Defined benefit scheme

	Accrued pension per annum at *31st December 1999* £000	Increase in accrued pension per annum during 1999 excluding *price inflation* £000	Transfer value of the increase less director's *contributions* £000
D O Lyon	18	6	29

The transfer value has been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11.

The above figures exclude any benefits derived from directors' additional voluntary contributions.

Defined contribution scheme

Employer contributions of £28,759 were paid during the year to a personal pension plan for J A S Jewitt.

Remuneration Report continued

Directors' interests

The beneficial and family interests of directors in the share capital of the Company according to the register of directors' interests maintained by the Company under Section 325 of the Companies Act 1985 were:

	Ordinary shares		Share Options					
			Company Plan 1996		Employee Scheme 1996		SAYE Scheme	
	31.12.99	31.12.98	31.12.99	31.12.98	31.12.99	31.12.98	31.12.99	31.12.98
D G Heywood	393,589	350,789	–	–	–	–	–	–
D Howell	4,000	–[4]	–	–[4]	–	–[4]	–	–[4]
J A S Jewitt	142,020	103,846	–	–	221,400	221,400	28,750	28,750
D O Lyon	7,000	7,000	26,000	26,000	66,447	54,800	28,750	28,750

Notes:

1. Between 31st December 1999 and the date of this report there were no changes in the interests of the directors in the share capital of the Company.
2. None of the directors has any non-beneficial interest in the Company's share capital.
3. No director was materially interested in any contract of significance (apart from contracts of service) with any Group company during or at the end of the financial year.
4. At date of appointment.

Details of share options held by the directors during the year were:

	Scheme (see below)	Number of Options at 1st January 1999	Granted	at 31st December 1999	Exercise price	Date from which exercisable	Expiry date
J A S Jewitt	1	221,400	–	221,400	115p	Nov '99	Nov'03
	3	28,750	–	28,750	60p	Dec '00	Jun '01
D O Lyon	1	16,800	–	16,800	115p	Nov '99	Nov '03
	1	38,000	–	38,000	254.5p	Apr '01	Apr '05
	1	–	11,647	11,647	407.5p	Apr '02	Apr '06
	2	26,000	–	26,000	115p	Nov '99	Nov '06
	3	28,750	–	28,750	60p	Dec '00	Jun '01

Schemes:

1. Employee Share Option Scheme 1996 Options
2. Company Share Option Plan 1996 Options
3. SAYE Scheme Options

Notes:

1. During the year there were no exercises made by directors and no share options of directors lapsed.
2. There is no cost to the employee for the receipt of the Employee Share Option Scheme 1996 or Company Share Option Plan 1996 options. Deductions from earnings are made in respect of SAYE options.
3. Employee Share Option Scheme 1996 and Company Share Option Plan 1996 option prices are fixed at the mid-market price on the business day preceding the date of grant.
4. SAYE Scheme options are fixed at a discount of up to 20% below the mid-market price on the business day before the date of invitation applying to each option.
5. The mid-market price at 31st December 1999 was 645 pence and the range during the year was 378 pence to 685 pence.

On behalf of the Board

David Heywood CBE
Chairman,
20th March 2000

Corporate Governance continued

Only non-executive directors serve on the Remuneration Committee, which during the year determined the Company's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chief Executive. In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are appropriate to attract and retain executive directors of the necessary quality.

The remuneration of non-executive directors, including the Chairman, is a matter for the Company's Board and the Committee's terms of reference make it clear that the framework for the remuneration of the Company's senior executives must be agreed by the Board as a whole.

Short biographies of each of the directors, including their membership of the Board Committees outlined above, can be found on pages 6 and 7.

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chief Executive, Finance Director and the Chairman meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the senior non-executive director, who is available to discuss any concerns which investors may have in relation to the running of the Company. The Board encourages shareholders to attend the AGM and is always willing to answer questions, either in the meeting itself or, more informally, afterwards.

Going Concern

The directors confirm that, after reviewing the financial position and cash flows of the Group, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Financial Control

The Combined Code requires the Board to maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets. To that end, it requires that directors should, at least once a year, conduct a review of the effectiveness of the Group's system of internal controls and to report to shareholders that they have done so.

The Board has established procedures necessary to implement the requirements of the Combined Code relating to internal controls as reflected in the September 1999 guidance "Internal Control: Guidance for Directors on the Combined Code" (Turnbull Guidance).

In respect of the application of principle D.2 of the Combined Code, the Board has adopted the transitional approach to disclosure set out in the letter from the London Stock Exchange dated 27th September 1999. Accordingly, the comments below relate to internal financial control procedures and are made pursuant to the 1994 Rutteman guidance.

The directors are responsible for the Group's system of internal financial control. Such a system can provide reasonable but not absolute assurance against material misstatement or loss.

The key procedures operated during the year and which were designed to provide effective internal financial control were as follows:

- operating companies maintained internal financial controls appropriate to their respective businesses. These conformed to Group policies set out in the Group Accounting Policies and Procedures Manual. This sets out the accounting policies of the Group and the framework of internal financial control. Within the Manual, the duties of the Audit Committee, Group Finance, including the internal audit function, and divisional management are clearly set out with respect to internal financial control;
- operating company management were required annually to review the effectiveness of their systems of internal financial control and to complete an internal financial control questionnaire. At the end of the year they were required to confirm that they have reviewed for the whole year their system of internal financial control. Group Finance staff and internal audit reviewed the completed questionnaires and made visits to operating sites where internal financial controls were further reviewed. The results of the process were reported to the Audit Committee, with an update provided at the half-year stage;

Corporate Governance

The Company complied throughout the year with the Code provisions set out in Section 1 of the Combined Code published by the Committee on Corporate Governance in June 1998 ("the Code") except where indicated in this statement and the Remuneration Report.

The manner in which the Group applies the principles of good governance contained in the Code is described in the appropriate parts of this annual report. Thus the application by the Company of the Code's principles to remuneration matters at pages 28 and 30 should be read in conjunction with the statement below.

During the year, the Company has maintained a Board of directors which leads and controls the Company by holding regular monthly meetings at which its current performance is examined and directions are given to operating executives. Regular reports on monthly performance and other ad hoc matters of importance to the Company ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement. In addition, the Board holds regular meetings to discuss and devise the Company's medium- and long-term strategic focus and holds additional meetings as and when necessary to discuss extraordinary issues, such as potential acquisitions.

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to re-election by the Company's shareholders at the Annual General Meeting immediately following appointment and at least every three years thereafter.

The Board has a schedule of matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority on certain matters. Directors have access to the advice and services of the Company Secretary and procedures exist for all directors to take independent advice, if necessary, at the Company's expense.

The Board is led by David Heywood, the Company's non-executive Chairman. The day-to-day running of the Company's business is delegated to an executive team led by Justin Jewitt, the Group Chief Executive and which includes David Lyon, Finance Director and Mike Horgan, Managing Director of BNA. Four further non-executive directors with extensive finance, health and social care backgrounds provide the Board with a breadth of experience and with independent judgement. On 26th August 1999, Bob Nicholls was appointed the Board's senior non-executive director, succeeding Francis Howard who retired on 31st August 1999.

The Board actively encourages all directors to deepen their knowledge of their role and responsibilities and during the year, most Board members received formal training on courses specifically designed to help them to do so. In addition, all newly appointed non-executive directors spent a number of days meeting members of the Company's executive team and visited several of the Group's operating companies, in order to become acquainted with the business.

The Board operates a number of committees, consisting wholly or mainly of non-executive directors to which it has delegated certain specific responsibilities and each of which have formally adopted terms of reference. These comprise Nomination, Audit and Remuneration Committees. The former, which makes recommendations to the Board on the appointment of directors, is chaired by David Heywood, who is also Chairman of the Remuneration Committee. Its composition is not fixed but comprises those directors who, in the Board's opinion, are best qualified to judge the suitability of candidates for the position which is to be filled. In arriving at its recommendations, the Committee makes use of professional advisors as it considers necessary.

The Audit Committee was chaired until his retirement in August 1999 by Francis Howard, a qualified accountant. Since September 1999, it has been chaired by David Howell, who is a chartered accountant and is Group Finance Director of First Choice Holidays PLC. It comprises only non-executive directors and meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. Since the year-end, the Company has outsourced its internal audit function to a leading firm of chartered accountants. An audit plan has recently been agreed with the Committee, which expects the quality and scope of the Company's internal audit function to be significantly strengthened.

Internal Financial Control (continued)

- major business risks were identified to the Board in respect of each business area and monitored through monthly reports from divisional and Group management that set out all major business issues. The Group operates a comprehensive budgeting and forecasting system where monthly performance is reviewed and major variances investigated; and
- as part of their normal audit procedures, PricewaterhouseCoopers reviewed internal financial controls to the extent necessary to enable them to form an opinion on whether the accounts give a true and fair view. Within this scope of work they reviewed the internal financial controls questionnaires. The results of this process were reported to the Audit Committee.

At the end of the year, a corporate review of BNA's management accounts revealed that the Group's profits had been adversely affected by losses sustained by BNA on two major contracts in the London area to supply temporary staff which had been previously understated by BNA. These losses occurred as a consequence of the acute shortage of temporary nursing staff in the London area and the consequent need for BNA to sub-contract a growing proportion of its assignments to third parties at a higher cost than was recoverable.

The Board took immediate action to reduce the use of sub-contracted third parties and has strengthened the resources of BNA's finance and IT departments, which now report directly to the Group's Finance Director. In addition, the Board further reinforced the Company's internal control processes by outsourcing its internal audit function to Deloitte & Touche, a leading firm of Chartered Accountants.

In December 1999, the Board adopted a revised policy for assessing and monitoring significant risks facing the Group. Under the revised policy, whilst the ultimate responsibility for risk management remains with the Board, executive managers are given the opportunity and resources to identify and manage all key risks affecting the businesses for which they have responsibility. Monthly business review meetings of the executive directors and subsidiary managing directors to consider both operational and financial risk management issues are designed to ensure that business risks are managed in an effective and timely manner. In addition, managers are required to complete a formal written risk assessment for each business for which they are responsible. The Board now receives regular reports from the executive management of the Company and in this way will monitor its risk management processes throughout the year.

The directors confirm that, for the year ended 31st December 1999, they have reviewed the effectiveness of the Group's systems of internal financial control.

Directors' Responsibilities

In respect of the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit and cash flows of the Group for the period to that date. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and in accordance with applicable accounting standards. In addition, the directors are required:

- to adopt suitable accounting policies and apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to take account of expenses and income relating to the period being reported on, whether or not they have been paid or received in that period; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are also responsible for maintaining adequate accounting records so as to ensure that the financial statements comply with the requirements of the Companies Act, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

Auditors' Report

Report to the shareholders of Nestor Healthcare Group plc

We have audited the financial statements on pages 36 to 59 (and the additional disclosures on pages 28 to 30 relating to the remuneration of directors) which have been prepared under the historical cost convention and the accounting policies set out on pages 40 and 41.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report including as described on page 34, the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 31 to 33 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2 6NN
20th March 2000

Consolidated Profit and Loss Account

for the year ended 31st December 1999

	Notes	1999 £000	1998* £000
Turnover			
Continuing operations			
Existing		**273,393**	221,345
Acquisitions		**4,052**	–
		277,445	221,345
Discontinued operation: Share of turnover of associated undertaking		**22,673**	32,519
Turnover including share of associated undertaking		**300,118**	253,864
Less: Share of turnover of associated undertaking (discontinued operation)		**(22,673)**	(32,519)
Turnover	2, 3	**277,445**	221,345
Cost of sales		**(230,630)**	(182,883)
Gross profit		**46,815**	38,462
Administrative expenses		**(36,541)**	(28,996)
Continuing operations			
Existing	3	**9,869**	9,466
Acquisitions	3	**405**	–
Operating profit	3	**10,274**	9,466
Share of operating profit of associated undertaking (discontinued operation)		**2,704**	3,937
Total operating profit	3,4	**12,978**	13,403
Exceptional loss on disposal of associated undertaking (discontinued operation)	5	**(5,206)**	–
Profit on ordinary activities before interest		**7,772**	13,403
Net interest payable – Group	8	**(452)**	(506)
– Share of associated undertaking (discontinued operation)		**(69)**	(174)
Profit on ordinary activities before taxation		**7,251**	12,723
Before taxation, goodwill amortisation and exceptional item		**13,035**	12,780
Goodwill amortisation		**(578)**	(57)
Exceptional item		**(5,206)**	–
Tax on profit on ordinary activities	9	**(4,274)**	(3,600)
Profit on ordinary activities after taxation		**2,977**	9,123
Equity minority interests		**(55)**	73
Profit attributable to shareholders		**2,922**	9,196
Dividends	11	**(4,350)**	(3,598)
Retained for the year	24	**(1,428)**	5,598
Earnings per share			
Basic	12	**3.76p**	11.90p
Diluted	12	**3.70p**	11.71p
Adjusted earnings per share before goodwill amortisation and exceptional item			
Basic	12	**11.21p**	11.97p
Diluted	12	**11.02p**	11.78p
Dividends per share	11	**5.58p**	4.65p

The historical cost profit on ordinary activities before taxation and the historical cost profit retained for the year after taxation and dividends are the same as those reported above.

* As restated – see note 1

Statement of Total Recognised Gains and Losses

for the year ended 31st December 1999

	Notes	1999 £000	1998* £000
Profit attributable to shareholders		**2,922**	9,196
Differences on foreign currency net investments (associated undertaking)	24	**73**	(10)
Total recognised gains and losses relating to the year		**2,995**	9,186
Prior year adjustment	1	**(2,985)**	
Total gains and losses recognised since the last annual report		**10**	

Reconciliation of Movements in Equity Shareholders' Funds

for the year ended 31st December 1999

	Notes	1999 £000	1998* £000
Profit attributable to shareholders		**2,922**	9,196
Dividends	11	**(4,350)**	(3,598)
Other recognised gains and losses for the year	*24*	***73***	*(10)*
Shares issued during the year		**850**	318
Goodwill written back on disposal of associated undertaking	24	**34,542**	–
Net increase in equity shareholders' funds		**34,037**	5,906
Opening equity shareholders' funds (originally £14,927,000 before deducting prior year adjustment of £2,985,000)		**11,942**	6,036
Closing equity shareholders' funds		**45,979**	11,942

* As restated – see note 1

Balance Sheets

as at 31st December 1999

	Notes	Group 1999 £000	Group 1998* £000	Company 1999 £000	Company 1998* £000
Fixed assets					
Intangible assets	13	**21,337**	3,711	**–**	–
Tangible fixed assets	14	**7,724**	5,533	**217**	150
Investments	16	**772**	842	**22,854**	41,147
Interests in associated undertaking	16	**–**	1,679	**–**	–
Total fixed assets		**29,833**	11,765	**23,071**	41,297
Current assets					
Debtors	17	**40,961**	36,006	**36,393**	9,803
Cash at bank and in hand		**11,743**	591	**25,179**	10,760
		52,704	36,597	**61,572**	20,563
Creditors – amounts falling due within one year	18	**(33,228)**	(33,062)	**(22,229)**	(10,467)
Net current assets		**19,476**	3,535	**39,343**	10,096
Total assets less current liabilities		**49,309**	15,300	**62,414**	51,393
Creditors – amounts falling due after more than one year	19	**(184)**	(262)	**–**	–
Provisions for liabilities and charges	22	**(3,195)**	(3,200)	**(2,779)**	(2,800)
Net assets		**45,930**	11,838	**59,635**	48,593
Capital and reserves					
Called up share capital	23	**7,814**	7,745	**7,814**	7,745
Share premium account	24	**3,620**	2,839	**3,620**	2,839
Other reserves	24	**–**	–	**23,596**	23,596
Foreign exchange reserve	24	**864**	791	**2,154**	2,154
Profit and loss account	24	**33,681**	567	**22,451**	12,259
Equity shareholders' funds		**45,979**	11,942	**59,635**	48,593
Equity minority interests		**(49)**	(104)	**–**	–
		45,930	11,838	**59,635**	48,593

* As restated – see note 1

The financial statements on pages 36 to 59 were approved by the Board on 20th March 2000 and were signed on its behalf by

D G Heywood

D O Lyon

Consolidated Cash Flow Statement

for the year ended 31st December 1999

	1999 £000	1999 £000	1998 £000	1998 £000
Net cash inflow from continuing operating activities		**8,928**		4,925
Dividends received from associated undertaking		**1,209**		1,798
Returns on investments and servicing of finance				
Interest paid	**(686)**		(249)	
Interest received	**215**		95	
Net cash outflow from returns on investments and servicing of finance		**(471)**		(154)
Taxation		**(4,265)**		(3,527)
Net cash inflow before investing activities and equity dividends paid		**5,401**		3,042
Capital expenditure and financial investment				
Purchase of tangible fixed assets (note 14)	**(4,305)**		(3,035)	
Sale of tangible fixed assets	**158**		81	
***Net cash outflow from capital expenditure* and financial investment**		**(4,147)**		(2,954)
Acquisitions and disposals				
Purchase of businesses and subsidiary undertakings (note 16)	**(10,025)**		(3,523)	
Net (overdraft)/cash acquired with businesses (note 16)	**(45)**		32	
Sale of discontinued operation (note 5)	**33,441**		–	
Receipts from loan note redemptions (note 16)	**70**		304	
Net cash inflow/(outflow) from acquisitions and disposals		**23,441**		(3,187)
Equity dividends paid		**(3,868)**		(3,205)
Net cash inflow/(outflow) before financing		**20,827**		(6,304)
Financing				
Issue of ordinary share capital (note 23)	**850**		318	
Repayment of loans	**(1,520)**		(1,000)	
Net cash outflow from financing		**(670)**		(682)
Increase/(decrease) in cash		**20,157**		(6,986)

The notes to the Consolidated Cash Flow Statement are shown in note 25 to the financial statements.

Notes to the Financial Statements

for the year ended 31st December 1999

Note 1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. Accounts are made up to the nearest practicable Friday to 31st December each year.

Changes in accounting policy

Provisions

In order to comply with the requirements of FRS 12, "Provisions, Contingent Liabilities and Contingent Assets", the Group has established provisions in respect of leasehold properties that are either vacant or underlet at a discount. The provisions have been established as a prior year adjustment as they represent a change in accounting policy. Previously the Group did not provide for the difference between rents receivable and payable on surplus properties. Figures for the prior periods, including disclosures in the notes to the financial statements, have been restated where applicable to reflect the change of accounting policy. The effect on the balance sheet at 31st December 1998 has been to increase the provisions for liabilities and charges and reduce the reserves of the Group by £2,985,000 and of the Company by £2,800,000. The impact on the profit before tax of the Group for the current year is an increase of £39,000 (1998 – £119,000). Details are shown in note 22 to the accounts.

Changes in presentation of financial information

FRS 13, "Derivatives and other financial instruments – disclosures", has been adopted and, consequently, additional information regarding the financial assets and liabilities of the Group have been included within the notes to the financial statements.

Basis of consolidation

The Group financial statements comprise a consolidation of the financial statements of the Company and all its subsidiary undertakings. Where a subsidiary has been disposed of during the year the results of that subsidiary undertaking are included to the date of disposal. Merger accounting rules are followed in respect of mergers which satisfy the conditions set out in FRS 6. Associated undertakings are accounted for using the equity method.

Goodwill

Purchased goodwill, being the excesss of the purchase consideration over the fair value of the net assets of newly acquired undertakings, is capitalised on the balance sheet, and amortised over its useful economic life. Prior to 1st January 1998, all purchased goodwill was written off to reserves on acquisition. Previously written off goodwill has not been reinstated and is charged to the profit and loss account on the disposal or termination of the related business.

Depreciation

Depreciation of fixed assets is provided where it is necessary to reflect a reduction from book value to estimated residual value over the useful life of the asset to the Group. It is the Group's policy to maintain its properties in a state of good repair, and in the case of freehold and long leasehold properties, the directors consider that the lives of these properties and their residual values are such that their depreciation is not significant. Accordingly, no depreciation is provided on freehold and long leasehold properties. Other fixed assets are written off by equal instalments over their anticipated useful lives of between three and eight years.

Deferred taxation

Deferred taxation is provided on the liability method where, in the opinion of the directors, it is probable that the liability will crystallise in the foreseeable future.

Pension costs

Pension costs are charged to the profit and loss account in such a way as to provide for the liabilities evenly over the remaining working lives of the employees.

Leases

Where fixed assets are financed by leasing agreements which give rights approximately equivalent to ownership (finance lease) the assets are capitalised. The corresponding lease commitments are treated as obligations to the lessor. All other lease payments are charged to the profit and loss account in the year to which they relate.

Foreign currencies

The trading results and cash flows of overseas subsidiary undertakings are translated into sterling using the average rates of exchange. The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year end. Exchange differences arising on translation into sterling are dealt with through reserves. Where the Company takes out foreign currency loans to hedge its investments in overseas subsidiary undertakings, both the loan and that part of the investment matched to the loan are translated into sterling at the year-end rate. The remaining element of the investment is translated at the rate ruling at the date of the investment except in those instances where forward exchange contracts have been arranged, in which case, the forward rate is used.

Note 2 Turnover

Turnover represents the amount invoiced net of value added tax in respect of the provision of services to customers during the year.

Note 3 Segmental reporting

	Turnover		Total operating profit	
	1999 £000	1998 £000	**1999 £000**	1998* £000
Turnover and operating profit, including share of associate by geographical location				
United Kingdom	**277,445**	221,345	**10,274**	9,466
United States of America (discontinued operation)	**22,673**	*32,519*	**2,704**	*3,937*
	300,118	253,864	**12,978**	13,403

There is no material difference between the geographical analysis of turnover by origin and by destination.

	Turnover	
	1999 £000	1998 £000
Turnover including share of associated undertaking by business activity		
UK Healthcare		
Personnel	**230,586**	200,024
Services	**46,859**	21,321
Total continuing operations	**277,445**	221,345
USA Healthcare (discontinued operation)	**22,673**	32,519
Total	**300,118**	253,864

All turnover is derived from external customers.

* As restated – see note 1

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 3 Segmental reporting – continued

	Total operating profit before amortisation of goodwill		Total operating profit	
	1999	1998*	**1999**	1998*
	£000	£000	**£000**	£000
Operating profit including share of associated undertaking by business activity				
UK Healthcare				
Personnel	**11,185**	10,205	**10,773**	10,157
Services	**1,774**	842	**1,608**	833
Central costs	**(2,107)**	(1,524)	**(2,107)**	(1,524)
Total continuing operations	**10,852**	9,523	**10,274**	9,466
USA Healthcare (discontinued operation)	**2,704**	3,937	**2,704**	3,937
Total	**13,556**	13,460	**12,978**	13,403

Turnover, cost of sales, gross profit, administrative expenses, operating profit and share of profit of associated undertaking are analysed between continuing and discontinued operations as follows:

	Continuing existing 1999 £000	Continuing acquisitions 1999 £000	Continuing total 1999 £000	Discontinued 1999 £000	Total 1999 £000
Turnover	**273,393**	**4,052**	**277,445**	–	**277,445**
Cost of sales	**(227,514)**	**(3,116)**	**(230,630)**	–	**(230,630)**
Gross profit	**45,879**	**936**	**46,815**	–	**46,815**
Administrative expenses	**(36,010)**	**(531)**	**(36,541)**	–	**(36,541)**
Operating profit	**9,869**	**405**	**10,274**	–	**10,274**
Share of operating profit of associate	–	–	–	**2,704**	**2,704**
Total operating profit	**9,869**	**405**	**10,274**	**2,704**	**12,978**

The total turnover contributed by acquisitions during the year was approximately £9 million. No indication can be given of the contribution to operating profit of certain acquisitions which were made during the year. This is because the businesses and assets were integrated into the Group's existing subsidiaries immediately after acquisition and it is not now possible to identify the separate results of each of the separate parts of the businesses. Accordingly the turnover and operating profit from acquisitions disclosed in the table above relates only to those business which are separately identifiable.

	Continuing 1998* £000	Discontinued 1998 £000	Total 1998* £000
Turnover	221,345	–	221,345
Cost of sales	(182,883)	–	(182,883)
Gross profit	38,462	–	38,462
Administrative expenses	(28,996)	–	(28,996)
Operating profit	9,466	–	9,466
Share of operating profit of associate	–	3,937	3,937
Total operating profit	9,466	3,937	13,403

* As restated – see note 1

Note 3 Segmental reporting – continued

Analysis of net operating assets	Net operating assets 1999 £000	1998* £000
Analysis of net operating assets by geographical location		
United Kingdom	**55,732**	36,263
United States of America	–	37,096
	55,732	73,359

Analysis of net operating asset/(liabilities) by business activity	1999 £000	1998* £000
UK Healthcare		
Personnel	**51,523**	36,387
Services	**11,933**	5,103
Central	**(7,724)**	(5,227)
Total continuing operations	**55,732**	36,263
USA Healthcare (discontinued operation)	–	37,096
	55,732	73,359

	1999 £000	1998* £000
Net assets per consolidated balance sheet	**45,930**	11,838
Net (cash)/debt	**(7,089)**	10,088
Goodwill written off to reserves	**16,891**	51,433
Total net operating assets, including goodwill	**55,732**	73,359

Note 4 Operating profit

	1999 £000	1998* £000
Operating profit excluding associate is stated after charging/(crediting)		
Depreciation	**2,118**	1,198
Amortisation of goodwill	**578**	57
Net profit on sale of tangible fixed assets	**(30)**	(37)
Hire of plant & machinery	**21**	17
Auditors' remuneration – audit	**232**	191
Rents received net of outgoings	**(2)**	(7)
Rent of premises	**1,194**	1,065

Remuneration of the Company's auditors in respect of other services amounted to £371,000 (1998 – £185,000).
Auditors' remuneration in respect of the Company's audit amounted to £31,000 (1998 – £25,000).

* As restated – see note 1

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 5 Exceptional loss on disposal of associated undertaking (discontinued operation)	1999 £000	1998 £000
Gross proceeds	**34,123**	–
Costs of disposal	**(682)**	–
Net cash flow	**33,441**	–
Amounts owing to former partners relating to intangible equalisation payment in accordance with an agreement dated July 1996	**(1,000)**	–
Share of net assets of associated undertaking on disposal	**(3,105)**	–
Goodwill previously eliminated against reserves	**(34,542)**	–
Charge to the profit and loss account	**(5,206)**	–

On 28th July 1999 the Group completed the disposal of its minority interest in Cross Country Staffing realising gross proceeds of $54,100,000 (£34,123,000). There is no tax effect from the disposal.

Note 6 Employees

	1999 £000	1998 £000
Employee costs		
Wages and salaries	**20,717**	17,536
Social security costs	**1,560**	1,326
Other pension costs	**737**	542
	23,014	19,404

	1999	1998
Employee numbers		
The average number of persons employed by the Group during the year was:		
Full-time	**1,015**	896
Part-time	**1,298**	1,107
	2,313	2,003

Note 7 Directors' emoluments	1999 £000	1998 £000
Aggregate emoluments	**518**	532
Aggregate gains made on the exercise of share options	–	–
Company contributions to money purchase schemes	**29**	23
	547	555

One director (1998 – one) has retirement benefits accruing under money purchase pension schemes. In addition, retirement benefits are accruing to one (1998 – one) director under the Company's defined benefit pension scheme.

Highest paid director

	1999	1998
Aggregate emoluments, gains made on share options and benefits under long-term incentive schemes	**204**	244
Company contributions to money purchase pension schemes	**29**	23

The detailed numerical analysis of directors' remuneration is included in the tables in the Remuneration Report on pages 28 to 30 and forms part of these financial statements.

Note 8 Net interest payable – Group

	1999 £000	1998* £000
Unwinding of discount in provisions (note 22)	**(140)**	(142)
Interest payable on bank loans and overdrafts	**(493)**	(285)
Interest payable on other loans	**(149)**	(164)
Total interest and similar charges payable	**(782)**	(591)
Bank interest and other investment income receivable	**330**	85
Net interest payable and similar items	**(452)**	(506)

* As restated – see note 1

Note 9 Tax on profit on ordinary activities

	1999 £000	1998 £000
UK Corporation Tax at 30.25% (1998 – 31.5%) on taxable profits for the year	**3,093**	2,695
Over provision in previous years	**(150)**	(75)
Deferred tax (note 22)	**34**	73
Overseas taxes	**1,297**	907
	4,274	3,600

The 1998 taxation charge was reduced by the availability of tax allowable deductions in the USA which were exhausted during that year.

Note 10 Profit for the year

The profit after tax for the year dealt with in the accounts of the Company amounts to £14,542,000 (1998 – £6,507,000). Under the provisions of Section 230, Companies Act 1985, the Company has not published its own profit and loss account.

Note 11 Dividends

	1999 £000	1998 £000
Dividends paid		
Ordinary shares: 2.02p per share (1998 – 1.68p)	**1,568**	1,298
Dividends proposed		
Ordinary shares: 3.56p per share (1998 – 2.97p)	**2,782**	2,300
Total dividends: 5.58p per share (1998 – 4.65p)	**4,350**	3,598

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 12 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	Earnings £m	1999 Weighted average number of shares million	EPS pence	Earnings* £m	1998 Weighted average number of shares million	EPS* pence
FRS 3 Basis						
Basic earnings per share	**2,922**	**77,644**	**3.76p**	9,196	77,270	11.90p
Dilutive effect of options	**–**	**1,329**	**(0.06p)**	–	1,248	(0.19p)
Diluted earnings per share	**2,922**	**78,973**	**3.70p**	9,196	78,518	11.71p
Adjusted to exclude goodwill amortisation and exceptional item						
Basic – FRS 3 Basis	**2,922**	**77,644**	**3.76p**	9,196	77,270	11.90p
Loss on disposal of associated undertaking	**5,206**	**–**	**6.70p**	–	–	0.00p
Goodwill amortised	**578**	**–**	**0.75p**	57	–	0.07p
Adjusted basic earnings per share	**8,706**	**77,644**	**11.21p**	9,253	77,270	11.97p
Diluted – FRS 3 Basis	**2,922**	**78,973**	**3.70p**	9,196	78,518	11.71p
Loss on disposal of associated undertaking	**5,206**	**–**	**6.59p**	–	–	0.00p
Goodwill amortised	**578**	**–**	**0.73p**	57	–	0.07p
Adjusted diluted earnings per share	**8,706**	**78,973**	**11.02p**	9,253	78,518	11.78p

* As restated – see note 1

Note 13 Intangible assets

	Goodwill £000
Group	
Cost	
At 1st January 1999	**3,768**
Additions (note 16)	**18,204**
At 31st December 1999	**21,972**
Aggregate amortisation	
At 1st January 1999	**57**
Charge for the year	**578**
At 31st December 1999	**635**
Net book value	
At 31st December 1999	**21,337**
At 31st December 1998	3,711

The goodwill arising on acquisitions during the year is being amortised on a straight-line basis over 20 years. This is the period over which the directors estimate that the value of the underlying businesses acquired are expected to exceed the value of the underlying assets.

Note 14 Tangible fixed assets

	Land & buildings		Plant & equipment, fixtures & fittings	
	Freehold £000	*Leasehold* £000	*fittings* £000	*Total* £000
Group				
Cost				
At 1st January 1999	**73**	**9**	**8,739**	**8,821**
Additions	–	–	**4,305**	**4,305**
On acquisition of businesses and subsidiary undertakings	–	–	**153**	**153**
Disposals	–	–	**(470)**	**(470)**
At 31st December 1999	**73**	**9**	**12,727**	**12,809**
Depreciation				
At 1st January 1999	–	**9**	**3,279**	**3,288**
On acquisition of businesses and subsidiary undertakings	–	–	**21**	**21**
Eliminated on disposals	–	–	**(342)**	**(342)**
Charge for the year	–	–	**2,118**	**2,118**
At 31st December 1999	–	**9**	**5,076**	**5,085**
Net book value				
At 31st December 1999	**73**	–	**7,651**	**7,724**
At 31st December 1998	73	–	5,460	5,533

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 14 Tangible fixed assets – continued

	Plant & equipment, fixtures & fittings £000	Total £000
Company		
Cost		
At 1st January 1999	**302**	**302**
Additions	**171**	**171**
Disposals	**(35)**	**(35)**
At 31st December 1999	**438**	**438**
Depreciation		
At 1st January 1999	**152**	**152**
Eliminated on disposals	**(11)**	**(11)**
Charge for the year	**80**	**80**
At 31st December 1999	**221**	**221**
Net book value		
At 31st December 1999	**217**	**217**
At 31st December 1998	150	150

Note 15 Capital commitments

	1999 £000	1998 £000
Capital expenditure that has been contracted but not provided for	**1**	19

Note 16 Fixed asset investments

	Share of net assets of associate £000	Scott-Grant loan note £000	Total £000
Group			
At 1st January 1999	**1,679**	**842**	**2,521**
Share of retained profit of associated undertaking	**1,353**	**–**	**1,353**
Disposal of investments in associated undertaking	**(3,105)**	**–**	**(3,105)**
Part repayment of loan note	**–**	**(70)**	**(70)**
Foreign exchange movements	**73**	**–**	**73**
At 31st December 1999	**–**	**772**	**772**

	Investment in subsidiaries £000	Scott-Grant loan note £000	Total £000
Company			
At 1st January 1999	**40,305**	**842**	**41,147**
Acquisition of businesses and subsidiary undertakings	**7,705**	**–**	**7,705**
Disposal of investment in associated undertaking	**(25,928)**	**–**	**(25,928)**
Part repayment of loan note	**–**	**(70)**	**(70)**
At 31st December 1999	**22,082**	**772**	**22,854**

Except where stated, the following subsidiary companies are wholly-owned including 100% voting rights, operate in the United Kingdom and are registered in England & Wales. All companies have been included in the consolidated results of the Group.

Principal undertakings

Undertaking	Business
UK Healthcare Personnel	
British Nursing Co-operations Limited [1] (trading as BNA)	UK healthcare services and personnel
British Nursing Association Home Care Services Limited [1]	UK healthcare services and personnel
Grosvenor Nursing Agency Limited	UK healthcare services and personnel
Medico Nursing and Homecare Limited [1]	UK healthcare services and personnel
Medic International Limited	UK locum doctors and other medical personnel and services
Country Cousins (Horsham) Limited	UK homecare services and personnel
Carewatch Care Services Limited [2]	Franchised homecare personnel provider
UK Healthcare Services	
Nestor Disability Analysis Limited	UK healthcare services
Nestor Medical Duty Services Limited	UK doctors' duty services
Forensic Medical Services Limited	Healthcare and related services in secure environments
FMS Supplies Limited	Supplier of pharmaceutical products
Nestor Primecare Limited	UK healthcare services

[1] The interest of Nestor Healthcare Group plc is held through intermediate holding companies.

[2] Nestor Healthcare Group plc has a 51% interest.

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 16 Fixed asset investments – continued

Scott-Grant loan note

The Scott-Grant loan note bears interest at 7% per annum on capital outstanding. Overdue capital repayments bear interest at 12% per annum.

The loan note is repayable on 17th May 2000. Scott-Grant defaulted on the May 1999 capital repayment. However, the directors believe that the balance is fully recoverable. All interest payments due, including interest on overdue capital repayments, have been received.

Cross Country Staffing

Until 28th July 1999, the Company had, through Nestor-BNA Holdings Corp. and its subsidiaries, a 34% interest in Cross Country Staffing, and accounted for its results as an associated undertaking.

As required by FRS 9, additional disclosures relating to the Group's interest in Cross Country Staffing are given below.

	1999 \$000	**1999 £000 at \$1.57**	1998 \$000	1998 £000 at \$1.66
Turnover	**35,665**	**22,673**	53,917	32,519
Operating profit	**4,254**	**2,704**	6,528	3,937
Interest	**(108)**	**(69)**	(288)	(174)
Profit before tax	**4,146**	**2,635**	6,240	3,763
				at \$1.66
Fixed assets	–	–	414	249
Current assets	–	–	10,834	6,511
Liabilities due within one year	–	–	(6,822)	(4,100)
Liabilities due after one year	–	–	(1,632)	(981)
Group's share of net assets (34%)	–	–	2,794	1,679

Related Party Transactions

Neither the Group nor the Company had any material transactions with related parties during the year.

Note 16 *Fixed asset investments* – continued

The Group purchased ten companies and businesses during the year for a total consideration of £17,526,000 of which £7,500,000 was in respect of the acquisition on 24th August 1999 of Forensic Medical Services Limited and FMS Supplies Limited (together 'FMS') and £4,250,000 was in respect of the acquisition on 29th September 1999 of the business of Medico Nursing and Homecare Limited ('Medico'). No fair value adjustments were considered necessary to the book values of the assets and liabilities of the businesses acquired. All of these purchases have been accounted for as acquisitions.

The assets and liabilities acquired and the goodwill arising are as follows:

	FMS £000	Medico £000	Other £000	Total £000
Fixed assets	41	65	26	132
Current assets and liabilities				
Debtors and prepayments	628	–	–	628
Creditors and accruals	(606)	–	–	(606)
Bank overdraft	(45)	–	–	(45)
Net current liabilities	(23)	–	–	(23)
Creditors – amounts falling due after more than one year	(5)	–	–	(5)
Net assets acquired	13	65	26	104
Purchase consideration	7,500	4,250	5,776	17,526
Costs of acquisition	205	123	454	782
Total cost	7,705	4,373	6,230	18,308
Goodwill arising (note 13)	7,692	4,308	6,204	18,204

Cash flows in respect of purchase of businesses

	FMS £000	Medico £000	Other £000	Total £000
Total cost	7,705	4,373	6,230	18,308
Issue of loan notes	(4,500)	–	–	(4,500)
Deferred consideration	(3,000)	–	(446)	(3,446)
Accrued expenses	(82)	(51)	(204)	(337)
	123	4,322	5,580	10,025
Overdraft acquired	45	–	–	45
	168	4,322	5,580	10,070

Forensic Medical Services Limited, in its last financial year to 31st December 1998, achieved profit after tax of £69,000. FMS Supplies Limited, in the seventeen month period to 31st December 1998, achieved profit after tax of £162,000. For the period since 31st December 1998 to the date of acquisition, the combined profit after tax was £241,000.

Medico, in its last financial year to 31st March 1999, achieved operating profit of £960,000. For the period since that date to the date of acquisition, Medico's operating profit was £402,000. No figures are available for profit after taxation because for the majority of the period prior to acquisition the business traded as a partnership and therefore had not been taxed as a separate entity.

Deferred consideration is payable in cash and is dependent upon the achievement of certain post-acquisition profit targets. The maximum potential deferred consideration is £7,000,000. The fair value of the deferred consideration has been determined on a provisional basis.

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 17 Debtors

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Trade debtors	**33,558**	29,751	–	–
Amounts owed by Group companies	–	–	**26,667**	1,732
Dividends receivable from Group companies	–	–	**7,890**	7,048
Other debtors	**431**	246	**97**	144
Prepayments and accrued income	**6,972**	6,009	**150**	39
Corporation tax	–	–	**1,589**	840
	40,961	36,006	**36,393**	9,803

Note 18 Creditors – amounts falling due within one year

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Bank overdraft and loans	**94**	9,099	–	3,158
Loan other than from banks	**4,500**	1,500	**4,500**	1,500
Trade creditors	**6,371**	7,374	–	–
Amounts owed to Group companies	–	–	**9,689**	1,317
Dividends proposed	**2,782**	2,300	**2,782**	2,300
Corporation Tax	**2,445**	2,355	–	349
Other tax and social security	**2,469**	1,968	**27**	15
Other creditors	**10,087**	4,343	**4,513**	1,061
Accruals and deferred income	**4,480**	4,123	**718**	767
	33,228	33,062	**22,229**	10,467

Note 19 Creditors – amounts falling due after more than one year

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Bank loan	**60**	80	–	–
Other creditors	**124**	182	–	–
	184	262	–	–

Note 20 Net borrowings/(cash)

	Interest rates	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Unsecured					
Bank overdraft and loans	variable	**154**	9,179	**–**	3,158
Secured loan other than from banks	variable	**4,500**	1,500	**4,500**	1,500
Total borrowings		**4,654**	10,679	**4,500**	4,658
Cash at bank and in hand		**(11,743)**	(591)	**(25,179)**	(10,760)
Net borrowings/(cash)		**(7,089)**	10,088	**(20,679)**	(6,102)

Net borrowings/(cash) for the Group are summarised as follows:	Repayable within 1 year £000	Repayable between 1 and 2 years £000	Repayable between 2 and 5 years £000	Total £000
Unsecured				
Bank overdraft and loans	**94**	**20**	**40**	**154**
Secured loan other than from banks	**4,500**	**–**	**–**	**4,500**
Total borrowings	**4,594**	**20**	**40**	**4,654**
Cash at bank and in hand	**(11,743)**	**–**	**–**	**(11,743)**
At 31st December 1999	**(7,149)**	**20**	**40**	**(7,089)**
At 31st December 1998	10,008	20	60	10,088

Note 21 Financial instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities is set out in the Financial Review on page 23.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures.

Interest rate profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31st December 1999 was:

	Total £000	Floating rate financial liabilities £000	Financial liabilities on which no interest paid £000
At 31st December 1999 – all sterling	**7,724**	**7,600**	**124**

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

Included in the above are the Group's provisions of £2,946,000 for surplus properties (note 22) which meet the definition of financial liabilities. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been discounted and the discount rate is re-appraised at each half-yearly reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability. Other floating rate financial liabilities bear interest at rates, based on LIBOR, which are fixed in advance for periods of between one month and six months.

The weighted average period to maturity of financial liabilities that bear no interest at 31st December 1999 was 1.5 years.

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 21 Financial instruments – continued

Interest rate profile of financial assets

The interest rate profile of the Group's financial assets at 31st December 1999 was:

	Total £000	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets on which no interest received £000
Sterling	**12,484**	**11,589**	**772**	**123**
Australian dollars	**21**	**21**	–	–
New Zealand dollars	**10**	**10**	–	–
At 31st December 1999	**12,515**	**11,620**	**772**	**123**

The financial assets comprise loan notes, bank deposits, bank current account balances and cash in hand. The floating rate financial assets earn interest at rates based on relevant national LIBOR equivalents and are all recoverable within one year or on demand. The fixed rate financial assets are the Scott-Grant loan notes, details of which are disclosed in note 16. The financial assets on which no interest is received are balances on bank currrent accounts and cash in hand.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31st December 1999 was:

	Debts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	**4,594**	**178**	**4,772**
Between 1 and 2 years	**20**	**345**	**365**
Between 2 and 5 years	**40**	**730**	**770**
Over 5 years	–	**1,817**	**1,817**
At 31st December 1999	**4,654**	**3,070**	**7,724**

Other financial liabilities includes the provision for surplus properties of £2,946,000.

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31st December 1999 in respect of which all conditions precedent had been met at that date:

	Floating rate £000
Expiring within 1 year	**2,500**
Expiring between 1 and 2 years	**2,250**
Expiring in more than 2 years	–
At 31st December 1999	**4,750**

All the above facilities incur commitment fees at market rates.

Note 21 Financial instruments – continued

Fair values of financial assets and financial liabilities

The following table shows a comparison between the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31st December 1999. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. For floating rate financial assets and liabilities, fair values approximate to book values.

	Book value £000	Fair value £000
Financial assets	12,515	12,515
Short-term financial liabilities and current portion of long-term borrowings	(4,594)	(4,594)
Long-term borrowings	(60)	(60)
Other financial liabilities	(3,070)	(3,060)
At 31st December 1999	4,791	4,801

Note 22 Provisions for liabilities and charges	Surplus properties £000	Deferred tax £000	Total £000
Group			
At 1st January 1999	–	215	215
Prior year adjustment	2,985	–	2,985
At 1st January 1999 as restated	2,985	215	3,200
Transfer from profit and loss account	–	34	34
Utilised in the year	(179)	–	(179)
Amortisation of discount	140	–	140
At 31st December 1999	2,946	249	3,195
Company			
At 1st January 1999	–	–	–
Prior year adjustment	2,800	–	2,800
At 1st January 1999 as restated	2,800	–	2,800
Utilised in the year	(153)	–	(153)
Amortisation of discount	132	–	132
At 31st December 1999	2,779	–	2,779

Surplus properties

The Group has a number of leasehold properties that are either vacant or underlet at a discount relating to former retailing activities of the Group and which are located in the South of England. Full provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant agreements, for the remaining period of the leases. In determining the provision for surplus properties, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates. This represents a change in accounting policy and the establishment of the provision for surplus properties has been treated as a prior year adjustment.

Deferred tax

The provision for deferred tax comprises the full potential provision arising from accelerated capital allowances.

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 23 Share capital

	Authorised		Allotted, issued and fully paid	
	Number	£000	Number	£000
Ordinary shares of 10p each				
At 1st January 1999	96,000,000	9,600	77,457,952	7,745
Issued during the year following exercise of options for consideration of £850,000	–	–	685,853	69
At 31st December 1999	96,000,000	9,600	78,143,805	7,814

Note 24 Share premium account and reserves

	Share premium account £000	Foreign exchange reserve £000	Profit & loss account £000	Total £000
Group				
At 1st January 1999				
As previously reported	2,839	791	3,552	7,182
Prior year adjustment (note 1)	–	–	(2,985)	(2,985)
As restated	2,839	791	567	4,197
Foreign exchange movements	–	73	–	73
Issue of shares following exercise of options	781	–	–	781
Goodwill written back on disposal of associated undertaking	–	–	34,542	34,542
Retained loss for the year	–	–	(1,428)	(1,428)
At 31st December 1999	3,620	864	33,681	38,165

At 31st December 1999 goodwill written off to date against reserves in respect of subsidiaries and associated undertakings still held by the Group was £16,891,000 (1st January 1999 – £51,433,000).

	Share premium account £000	Other reserves £000	Foreign exchange reserve £000	Profit & loss account £000	Total £000
Company					
At 1st January 1999					
As previously reported	2,839	23,596	2,154	15,059	43,648
Prior year adjustment (note 1)	–	–	–	(2,800)	(2,800)
As restated	2,839	23,596	2,154	12,259	40,848
Profit for the year	–	–	–	14,542	14,542
Issue of shares following exercise of options	781	–	–	–	781
Dividends	–	–	–	(4,350)	(4,350)
At 31st December 1999	3,620	23,596	2,154	22,451	51,821

Note 25 Notes to the cash flow statement

	1999 £000	1998* £000
Reconciliation of operating profit, excluding share of profit of associate, to net cash inflow from operations		
Operating profit	**10,274**	9,466
Amortisation of goodwill	**578**	57
Depreciation	**2,118**	1,198
Net profit on sale of tangible fixed assets	**(30)**	(37)
Utilisation of provisions	**(179)**	(261)
Increase in debtors	**(4,211)**	(12,913)
Increase in creditors	**378**	7,415
Net cash inflow from continuing operating activities	**8,928**	4,925

	1999 £000	1998 £000
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash	**20,157**	(6,986)
Cash outflow from decrease in debt	**1,520**	1,000
	21,677	(5,986)
Increase in loans on acquisition of shares	**(4,500)**	(100)
	17,177	(6,086)
Net debt at 1st January 1999	**(10,088)**	(4,002)
Net cash/(debt) at 31st December 1999	**7,089**	(10,088)

	Loans repayable in less than one year £000	Loans repayable in more than one year £000	Overdraft £000	Cash £000	Total £000
Analysis of movements in loans and cash balances					
At 1st January 1999	**(1,500)**	**(80)**	**(9,099)**	**591**	**(10,088)**
Decrease in loans and net cash outflow	**1,500**	**20**	**9,005**	**11,152**	**21,677**
Increase in loans on acquisition of business	**(4,500)**	**–**	**–**	**–**	**(4,500)**
At 31st December 1999	**(4,500)**	**(60)**	**(94)**	**11,743**	**7,089**

The impact on cash flows of post acquisition trading of the subsidiary undertakings acquired during the year is not material.

* As restated – see note 1

Notes to the Financial Statements continued

for the year ended 31st December 1999

Note 26 Other financial commitments

The Group occupies numerous premises operated under leases whose terms, conditions and expiry dates vary considerably.

The net commitment in respect of operating leases in 2000 is as follows:

	Land & buildings occupied by Group £000	Land & buildings not occupied by Group £000	Total £000
For leases expiring			
within one year	**383**	**–**	**383**
between two and five years	**280**	**52**	**332**
beyond five years	**231**	**397**	**628**
	894	**449**	**1,343**

In respect of the hire of plant and machinery, operating lease commitments are not material.

Note 27 Contingent liabilities

In 1993, CCHP (a partner in the Cross Country Staffing ("CCS") partnership) commenced a programme of providing tax-free meal and lodging benefits ("Travel Benefits") to the travelling nurses it employed. Such benefits were also provided to nurses employed by CCS following the establishment of the CCS partneship by CCHP and MRA Staffing Services Inc. (a former subsidiary of the Group) on 1st July 1996. The portion of the programme providing meal reimbursements was terminated on 1st June 1999 and applied to all contracts with nurses entered into prior to 1st June 1999.

In November 1998, the Inland Revenue Service of the US (the IRS) issued a payroll tax assessment of US$21.8 million for unpaid payroll tax in relation to the Travel Benefits provided to nurses for the 1993 to 1995 tax years of CCHP which were in the process of being reviewed by the IRS. On 23rd March 1999, CCHP filed a claim against the IRS in the United States Court of Federal Claims contesting this assessment.

CCHP and the Company have received advice from legal advisers in the United States that CCHP should either succeed in opposing this assessment, or be able to settle the case for a significantly lower sum in relation to all tax years during which the programme operated. The Company's liability of such settlement would be limited to amounts relating to the period since 1st July 1996 (being the date of establishment of the CCS partnership) and, taking this into account, the Company's share of any liability would be approximately 22 per cent, with WR Grace & Co.-Conn being liable for substantially all of the remaining share.

Based upon the advice received, the directors do not believe it is appropriate to make any provision in the accounts.

Note 28 Pension costs

The Company operates a funded pension scheme providing benefits based on final pensionable salary. The scheme is administered by Trustees separately from the affairs of the Group and is contracted out of the additional component of the State Pension Scheme.

Watson Wyatt Partners, consulting actuaries, carried out an actuarial valuation of the scheme as at 5th April 1997. The valuation took into account the financial effect of the July 1997 Budget which removed the ability of pension schemes to reclaim tax credits on UK equity dividends. On the actuarial basis used, as at that date the assessed value of the assets was 88% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an on going entity.

The market value of the investments held in the scheme as at the valuation date was £6,215,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow, the rate at which dividends on UK equities grow and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 4% per annum.

Note 28 Pension costs – continued

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 4.25% per annum relative to price inflation. For the purposes of the valuation, the investment assets were assumed to be invested 85% in UK equities – with dividends assumed, over the long-term future, to grow on average at a real rate of 0.5% per annum relative to price inflation – and 15% in British Government long-term fixed interest securities. Pensionable earnings were assumed to increase on average at a rate of 3% per annum ahead of price inflation.

The employer's contribution rate is calculated using the projected unit method and the shortfall of assets as at 5th April 1998 is amortised as a constant percentage of members' pensionable earnings over the average expected working lifetime of the active members.

The pension charge for the year was £737,000 (1998 – £542,000).

Note 29 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year. Share options in issue expire after a certain time and exercise dates vary. Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years. In addition, achievement of performance levels is normally required in all schemes except the SAYE scheme.

Date of issue	Option price (pence)	In issue 1st Jan 1999	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 1999
Employee Share Option Scheme						
April 1989	144.52	77,356	–	(77,356)	–	Nil
October 1990	86.00	11,580	–	(5,460)	–	6,120
October 1991	67.00	5,000	–	–	–	5,000
		93,936	–	(82,816)	–	11,120
Company Share Option Plan 1996						
November 1996	115.00	567,100	–	(433,900)	–	133,200
April 1998	236.50	182,259	–	–	(6,976)	175,283
October 1998	339.50	93,256	–	(8,836)	(26,508)	57,912
April 1999	407.50	–	86,717	–	(17,059)	69,658
October 1999	596.50	–	45,425	–	–	45,425
		842,615	132,142	(442,736)	(50,543)	481,478
Employee Share Option Scheme 1996						
November 1996	115.00	532,700	–	(138,800)	–	393,900
April 1998	236.50	322,405	–	–	–	322,405
April 1998	254.50	38,000	–	–	–	38,000
October 1998	339.50	33,631	–	(10,309)	(8,248)	15,074
April 1999	407.50	–	154,932	–	(12,784)	142,148
October 1999	596.50	–	17,770	–	–	17,770
		926,736	172,702	(149,109)	(21,032)	929,297
Savings Related Share Option Scheme						
October 1995	60.00	272,876	–	(7,503)	–	265,373
December 1997	131.00	323,060	–	(3,365)	–	319,695
December 1998	305.00	141,496	–	(324)	–	141,172
September 1999	412.00	–	145,360	–	–	145,360
		737,432	145,360	(11,192)	–	871,600
Total		**2,600,719**	**450,204**	**(685,853)**	**(71,575)**	**2,293,495**

Five Year Summary

	1995* £000	1996* £000	1997* £000	1998* £000	1999 £000
Group profit and loss account					
Turnover (including share of associated undertaking)					
Continuing operations – existing	114,697	124,574	144,342	221,345	**273,393**
Continuing operations – acquisition	–	–	–	–	**4,052**
Discontinued operations	14,419	18,048	29,029	32,519	**22,673**
	129,116	142,622	173,371	253,864	**300,118**
Less: Share of turnover of associated undertaking	–	(12,606)	(29,029)	(32,519)	**(22,673)**
Turnover	129,116	130,016	144,342	221,345	**277,445**
Operating profit					
Continuing operations – ongoing	5,820	6,746	7,053	9,466	**9,869**
Continuing operations – acquisition	–	–	–	–	**405**
Discontinued operations	1,160	326	–	–	**–**
	6,980	7,072	7,053	9,466	**10,274**
Share of operating profit of associated undertaking (discontinued operations)	–	1,025	2,821	3,937	**2,704**
	6,980	8,097	9,874	13,403	**12,978**
Exceptional items	–	(9,623)	–	–	**(5,206)**
Profit/(loss) before interest	6,980	(1,526)	9,874	13,403	**7,772**
Net interest	(516)	(345)	8	(680)	**(521)**
Profit/(loss) before taxation	6,464	(1,871)	9,882	12,723	**7,251**
Taxation	(1,974)	(2,071)	(2,573)	(3,600)	**(4,274)**
Profit/(loss) after taxation	4,490	(3,942)	7,309	9,123	**2,977**
Equity minority interests	–	–	–	73	**(55)**
Profit attributable to shareholders	4,490	(3,942)	7,309	9,196	**2,922**
Profit before taxation, goodwill amortisation and exceptional items	6,464	7,752	9,882	12,780	**13,035**
Earnings/(loss) per share – FRS 3 basis	5.99p	(5.22)p	9.55p	11.90p	**3.76p**
Earnings per share – before goodwill amortisation and exceptional items	5.99p	7.52p	9.55p	11.97p	**11.21p**
Dividends per share	3.15p	3.47p	3.87p	4.65p	**5.58p**

* As restated – see note 1

	1995* £000	1996* £000	1997* £000	1998* £000	1999 £000
Group balance sheet					
Intangible assets	–	–	–	3,711	**21,337**
Tangible fixed assets	1,916	2,712	3,685	5,533	**7,724**
Investments	969	(34)	870	2,521	**772**
Total fixed assets	2,885	2,678	4,555	11,765	**29,833**
Current assets	16,280	14,621	22,887	36,006	**40,961**
Liabilities and provisions	(13,203)	(14,268)	(17,404)	(25,845)	**(31,953)**
Net operating assets	5,962	3,031	10,038	21,926	**38,841**
Net cash/(borrowings)	*(4,739)*	*595*	*(4,002)*	*(10,088)*	***7,089***
Net assets	1,223	3,626	6,036	11,838	**45,930**
Share capital	7,507	7,612	7,718	7,745	**7,814**
Share premium account	1,306	1,923	2,548	2,839	**3,620**
Other reserves	(7,590)	(5,909)	(4,230)	1,358	**34,545**
Equity shareholders' funds	1,223	3,626	6,036	11,942	**45,979**
Equity minority interests	–	–	–	(104)	**(49)**
	1,223	3,626	6,036	11,838	**45,930**
Group cash flow statement					
Net cash inflow from operating activities	7,380	6,226	2,534	4,925	**8,928**
Dividends received from associated undertakings	–	–	188	1,798	**1,209**
Interest/(paid) received	(516)	(136)	124	(154)	**(471)**
Tax paid	(1,409)	(1,818)	(2,087)	(3,527)	**(4,265)**
Capital expenditure	(723)	(1,473)	(1,905)	(2,954)	**(4,147)**
Acquisitions and disposals	–	4,389	1,067	(3,187)	**23,441**
Equity dividends paid	(2,357)	(2,467)	(2,749)	(3,205)	**(3,868)**
Issue of shares	124	722	731	318	**850**
Decrease in loans	(2,179)	(4,491)	–	(1,000)	**(1,520)**
Increase/(decrease) in cash	320	952	(2,097)	(6,986)	**20,157**

* As restated – see note 1

Shareholder Information

Financial calendar

Announcement of 2000 results

For the half-year	August 2000
For the year	March 2001
Annual Report and Accounts circulated	April 2001
Annual General Meeting	May 2001

Dividends

Proposed final dividend 1999	
Announcement	20th March 2000
Ex-dividend	17th April 2000
Record date	25th April 2000
Payment date	26th May 2000
Interim dividend 2000 (provisional)	
Announcement	August 2000
Payment	October 2000

Analysis of shareholdings

At the date of this report the Company has 1,102 shareholders who hold over 78 million ordinary shares between them, analysed as follows:

Size of holding	Number of shareholders	% of shareholders	Number shares	% of shares
1–5,000	750	68.06	734,843	0.94
5,001–50,000	223	20.24	3,683,190	4.70
50,001–100,000	30	2.72	2,231,822	2.84
100,001 and over	99	8.98	71,780,882	91.52
	1,102	**100.0**	**78,430,737**	**100.0**

Type of shareholder				
Individuals	688	62.43	2,127,710	2.71
Nominee companies*	348	31.58	74,721,844	95.27
Other corporate and public bodies	62	5.63	1,578,422	2.01
Trust companies	4	0.36	2,761	0.01
	1,102	**100.0**	**78,430,737**	**100.0**

* This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts.

Share Registrar

The Company's registrar is Computershare Services PLC, at PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Notice of Annual General Meeting continued

(c) the maximum price which may be paid for each ordinary share is, in respect of an ordinary share contracted to be purchased on any day, an amount (exclusive of expenses) equal to 105% of the average of the mid-market quotations for an ordinary share of the Company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased;

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the date of passing this resolution, unless such authority is renewed prior to such time; and

(e) the Company may conclude a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be exercised wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract as if the authority hereby conferred had not expired.

11. To consider and if though fit, to pass the following resolution as an Ordinary Resolution:

That the proposed amendments to the Nestor Healthcare Group Company Share Option Plan 1996 and the Nestor Healthcare Group Employee Share Option Scheme 1996 which are set out in Appendix 1 to the Chairman's letter to shareholders dated 20th March 2000, be and is hereby approved.

12. To consider and if though fit, to pass the following resolution as an Ordinary Resolution:

That the Nestor Healthcare Group plc 2000 Savings Related Share Option Scheme, the main features of which are summarised in Appendix 2 to the Chairman's letter to shareholders dated 20th March 2000 be and is hereby approved and the directors be and hereby are authorised to do all such acts and things as may be necessary or desirable to carry the same into effect, including making such amendments as may be necessary to obtain the approval of the Inland Revenue and such other approvals as the Board may consider necessary or desirable.

Further that the directors be and are hereby authorised to establish such schedules to the Nestor Healthcare Group plc 2000 Savings Related Share Option Scheme or establish such other employee share schemes based on that scheme, as the case may be, to modify the provisions of the scheme to take account of local tax, exchange control or securities laws outside the UK provided that any shares issued under the schedules or other schemes must be treated as carrying against any individual or overall limits on participation contained in the scheme.

By order of the Board

Emma Thomas
Secretary

Registered office:
The Colonnades
Beaconsfield Close
Hatfield
Hertfordshire
AL10 8YD

20th March 2000

1. A form of proxy is enclosed with this notice. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. To be valid, proxies must be lodged with the Registrar of the Company, Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, no later than 12.00 noon on Tuesday 9th May 2000. Appointment of a proxy will not prevent a member from attending and voting at the Annual General Meeting should he/she decide to do so.
2. Copies of directors' service contracts are available for inspection at the Company's registered office during normal business hours on any weekday (public holidays excepted) and at The Brewery for 15 minutes prior to and during the Annual General Meeting.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN, that the fourteenth Annual General Meeting of the Company will be held at The Brewery, Chiswell Street, London EC1Y 4SD on Thursday, 11th May 2000 at 12.00 noon for the following purposes:

Ordinary business

1. To receive and consider the financial statements, together with the reports of the directors and auditors, for the year ended 31st December 1999.
2. To declare a final dividend.
3. To re-elect A Parker as a director.
4. To re-elect D Howell as a director.
5. To re-elect W F Holmes as a director.
6. To re-elect M D R Horgan as a director.
7. To re-appoint PricewaterhouseCoopers as auditors of the Company, to hold office until the conclusion of the next Annual General Meeting and to authorise the directors to determine their remuneration.

Special business

8. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

   That the directors be and are hereby authorised and empowered during the period expiring at the conclusion of the next Annual General Meeting of the Company, or on 11th August 2001 whichever is earlier, to allot relevant securities as defined in Section 80 of the Companies Act 1985 ("the Act") and to make an offer or agreement which would or might require relevant securities to be allotted after that date, so long as the nominal value of the relevant securities allotted under this authority shall not exceed the nominal value of the authorised but unissued share capital of the Company at the date hereof.

9. To consider and if thought fit, to pass the following resolution as a Special Resolution:

   That the directors of the Company be and are hereby authorised and empowered during the period expiring at the conclusion of the next Annual General Meeting of the Company or on 11th August 2001 whichever is the earlier, to exercise all powers of the Company to allot equity securities (within the meaning of Section 94 of the Act) as if Section 89(1) of the Act did not apply in the case of:

   (a) allotments in connection with a rights issue to shareholders where the directors shall have the right to make such exclusions or other arrangements as they may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of or requirements of any recognised regulatory body or any stock exchange in any territory, or otherwise howsoever;

   (b) other allotments of equity securities for cash where this authority shall be limited in aggregate to the allotment of or involving equity share capital not exceeding (in nominal value) 5% of the nominal value of the issued share capital of the Company as at the date hereof.

10. To consider and if thought fit, to pass the following resolution as a Special Resolution:

    That, pursuant to Article 44 of the Company's Articles of Association, the Company be and is hereby granted renewal of its general and unconditional authority to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 10p each in the capital of the Company provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased is 7,843,000, representing approximately 10% of the issued ordinary share capital at 20th March 2000;

    (b) the minimum price which may be paid for each ordinary share is 10 pence per ordinary share which amount shall be exclusive of expenses;